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Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Note by the Secretary-General

1. Pursuant to General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the audit of the United Nations Postal Administration.

2. The Secretary-General concurs with the recommendations contained in the report.

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Annex

Report of the Office of Internal Oversight Services on the audit of the United Nations Postal Administration

Summary

The United Nations Postal Administration (UNPA) was established by the General Assembly in 1950 to publicize the work and achievements of the United Nations and its specialized agencies, while generating revenue through the sale of specially designed stamps (philatelic) and contributing the resulting profit to the United Nations.

Since its inception, UNPA has been disseminating information on the work and achievements of the United Nations and its specialized agencies. In addition, it has been its major contributor of commercial revenue.

However, UNPA's revenue has declined in recent years and UNPA was not able to meet its financial targets of projected revenue or its expected net profit. As a result, in the biennium 1994-1995, UNPA suffered a loss of US$ 2.2 million, depleting almost completely its reserve fund.

The United Nations provides certain services and facilities free of charge to UNPA. If the costs of these services were to be charged to UNPA, its financial situation would have been even less favourable.

We are pleased to note that in 1996, UNPA's financial situation has significantly improved. However, factors which contributed to the 1994-1995 financial situation, including a declining philatelic market, high personnel cost and ineffective marketing strategies, continue to exist. We are concerned that these factors represent a threat to the long-term business success of UNPA.

We also noted internal control weaknesses in UNPA's operations in the areas of procurement, financial reporting, stamp shows, customer accounts and inventory control.

Key recommendations. To ensure the long-term business success of UNPA, the Office recommends that:

- An independent evaluation should be undertaken of current and alternative modes of fulfilling UNPA's mandate, to determine which is the most economical and efficient. Alternative modes of delivery should include arrangements for the outsourcing of UNPA operations, particularly the distribution function. Such evaluation must take into consideration the "full cost" of operating UNPA, including the cost of services and facilities currently provided to UNPA by the United Nations free of charge;

- Pending the results of the above evaluation and to improve accountability and ensure that strategic decisions of senior management are based on complete and accurate information, UNPA's financial statements should reflect the "full cost" of its operations, including the cost of services currently provided free of charge by the United Nations;

- Appropriate actions should be taken to generally improve UNPA's internal control systems.

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I. Introduction

1. The General Assembly, by its resolution 454 (V) of 16 November 1950, established the United Nations Postal Administration (UNPA). The central authority and the overall direction and supervision over UNPA is performed by the Commercial Activities Service, Office of Conference and Support Services, Department of Administration and Management.

2. UNPA's Global Office in New York is responsible for the overall production, policy and financial direction of the New York and European operations. The European Office in Vienna, established by UNPA during the biennium 1994-1995, is responsible for coordinating the work of the local offices in Geneva and Vienna.

3. UNPA's primary objectives are to publicize the work and achievements of the United Nations and its specialized agencies, while generating revenue through the sale of specially designed stamps (philatelic) and contributing the resulting profit to the United Nations. The medium-term plan for the period 1992-1997 and the proposed programme budgets for the bienniums 1992-1993 and 1994-1995 called for the expansion of UNPA's activities and for an increase in its sales.

4. The Office of Internal Oversight Services conducted an audit of UNPA during the period from April 1995 to January 1996. The audit covered the operations of UNPA for the bienniums 1992-1993 and 1994-1995, focusing on the operation in New York and the Global Office.

5. The primary objective of the audit was to assess the adequacy of internal controls exercised over UNPA's operation and their effectiveness in ensuring the achievement of its financial targets.

II. Major findings and recommendations

A. Achievement of financial targets

6. Since its inception in 1950, UNPA has been disseminating information on the work and achievements of the United Nations and its specialized agencies. In addition, it has been the major contributor of commercial revenue to the United Nations. However, UNPA's revenue has declined in recent years. It could not meet its financial targets of projected revenue or its expected net profit for the bienniums 1992-1993 and 1994-1995. As a result, in the biennium 1994-1995 UNPA, for the first time, suffered a loss amounting to US$ 2.2 million.

7. As expressed in the medium-term plan for the period 1992-1997, UNPA proposed developing themes and designs for United Nations stamps and various philatelic items which would be popular and generate as much revenue as had earlier issues. It also had planned to increase its emphasis on marketing, with the development of a global strategy to tap additional markets and increase its sales.

8. For the biennium 1994-1995, UNPA tried to increase its revenue through the introduction of new stamp themes. It anticipated that the issuance of commemorative stamps celebrating the fiftieth anniversary of the United Nations would increase revenue during the biennium. However, the Postal Administration's gross sales during 1994-1995 reached only $27.2 million, thus failing to surpass the sales of the previous biennium of $33.2 million, and did not meet its gross sales target of $36.3 million. For that matter, for the earlier biennium, UNPA had also failed to achieve its projected gross sales targets of $35.6 million and projected profit of $6.8 million.

9. Between the bienniums 1990-1991 and 1992-1993, UNPA's profit had already showed a decline, with a further sharp decrease in the 1994-1995 biennium, resulting in a loss of $2.2 million. The comparison between actual financial performance and targets is shown in table 1.

10. As a result, 94 per cent of UNPA's reserve fund had been depleted. Total expenses of UNPA as shown in table 1 do not include all costs incurred for its activities since the costs of office space, computer use, utilities, general building services, and United Nations senior management time are not charged to UNPA by the United Nations. If these costs were charged to UNPA, the net result would be still less favourable.

11. However, we are pleased to note that in 1996 UNPA's financial situation had significantly improved. Although the preliminary financial results for the year 1996 showed a further 12 per cent decline in sales over 1995, the Postal Administration was able to achieve an overall 29 per cent reduction in expenses and therefore realized a profit of $1.5 million in 1996. Although approximately $0.4 million of the expense reduction was attributable to the transfer of the cost of several posts out of UNPA's budget to the Commercial Activities Service, we believe that the overall expense reduction at UNPA in 1996 was significant.

12. We analysed the major factors which contributed to the 1994-1995 financial situation. There was a general downturn in the market which resulted in a continuously

Table 1. Actual financial performance and targets
(Millions of United States dollars)

	1994-1995		1992-1993	
	Actual	*Target*	*Actual*	*Target*
Gross stamps sales	27.2	36.3	33.2	35.6
Less:				
Payment to post offices and miscellaneous cost	4.7	4.3	5.1	4.1
Net revenue	22.5	32.0	28.1	31.5
Total expenses	-24.7	-26.9	-24.0	-24.7
Net results	-2.2	5.1	4.1	6.8

Table 2. Staff costs and net revenue
(Millions of United States dollars)

	1986-1987	1988-1989	1990-1991	1992-1993	1994-1995
Net revenue	25.0	26.2	27.2	28.1	22.5
Staff costs	10.9	12.3	15.6	16.2	17.6
Ratio (%)	44	47	57	58	78

declining sale of stamps. The old philatelic customers' population decreased, and the marketing strategies employed by UNPA could not overcome the declining demand.

13. In addition to the above factors, the decline in UNPA's revenue was accompanied by an increase in its expenses. A major factor for this increase was UNPA's staff costs. Internal analysis by UNPA of its staff costs showed that the ratio of staff costs to net revenue had increased from 44 per cent in 1986-1987 to 78 per cent in 1994-1995, as shown in table 2.

14. We are concerned that most of the above factors continue to exist and represent a threat to the long-term business success of UNPA. There is a need for an evaluation of more economical and efficient alternative modes of fulfilling UNPA's mandate. Outsourcing some of its operations, in particular of the stamp distribution function, could be a valuable alternative. UNPA's management had already analysed the potential for outsourcing its operations except for the functions performed by the Global and European offices. The Office of Internal Oversight Services encourages UNPA's management to further pursue the outsourcing alternative.

15. A serious evaluation of outsourcing must take into consideration the cost of all services currently provided by the United Nations to UNPA free of charge. The "full costing" of UNPA's operations would improve accountability and ensure that senior management decisions are based upon complete and accurate information. Senior management indicated that, while it will endeavour to comply with these requirements, the Office of Internal Oversight Services is introducing for the first time a "full cost" concept, which represents a significant departure from the "extra costs" concept which is currently applied. The "full cost" concept will have wide-ranging impact, not only on income-producing activities, but also on those activities financed under the regular budget of the Organization.

16. Budgeting controls over UNPA's operations should be strengthened and its financial targets should be realistic and attainable. In the face of declining revenue, control and reduction of UNPA expenses should continue to be a top priority. External marketing expertise could be engaged to assist UNPA's management in formulating appropriate marketing strategies.

The Office recommends that:

- UNPA should undertake an independent evaluation of current and alternative modes of fulfilling its mandate to determine which is the most economical and efficient. Alternative modes of delivery should include arrangements for the outsourcing of UNPA's operations, particularly the distribution function. Such evaluation must take into consideration the full cost of operating UNPA, including the cost of services currently provided by the United Nations free of charge (recommendation AH97/293/1/001);
- Pending the results of the above evaluation, UNPA should reflect in its financial statements the "full cost" of its operation, including the cost of services and facilities currently provided by the United Nations free of charge (recommendation AH97/293/1/002).

B. Procurement of computer system

17. In 1994, through a bidding process, UNPA entered into a contract with a consulting firm in the amount of $473,000 to develop an integrated Postal Administration computer system. UNPA procured the new system in order to streamline its operation, including the handling of the customer orders, and to reduce costs.

1. Lack of project feasibility study

18. UNPA did not conduct a feasibility study prior to its decision to purchase the new system. According to UNPA, as stated in the proposed programme budget for 1992-1993, the deficiencies noted in the old system were so numerous that it would be cost-effective to purchase a new system. Although the decision to purchase a new system was made after consultation with other units in the United Nations, no detailed study was conducted analysing the costs and benefits involved in enhancing the old system and in procuring a new one.

2. The bidding process

19. During the bidding process, none of the proposals received from the competing vendors fell within UNPA's project budget of $412,000, a condition which, according to the Financial Rules of the United Nations, would have called for a rejection of all bids. The project committee that reviewed the proposals did not seek the advice of the Office of Legal Affairs but instead applied a legal opinion given in another comparable case which would allow a direct negotiation with the selected vendor.

20. In our view, a new bidding process should have been carried out prior to the award of the contract because the bid proposals submitted by the vendors exceeded the budgeted cost.

3. Cost overruns

21. The project cost was originally budgeted at $412,000 at the time of the issuance of the Request for Proposal. At the time of our audit, the actual cost amounted to $821,000, including the cost of contract amendments submitted to the Headquarters Committee on Contracts for approval. UNPA did not sufficiently explain these significant cost overruns nor were these overruns mentioned in the 1996-1997 proposed programme budget.

4. New system implementation

22. In November 1995, UNPA shut down the old computer system completely, although the new one was not yet fully operational and could not perform all its intended functions. Owing to the timing of its implementation, UNPA's financial reporting was adversely affected. When the old system was shut down, not all the users were trained to operate the new system. There was no proper reconciliation of accounts prior to implementation. The new system documentation needed further improvement in its contents and quality. It lacked details of user controls and operating instructions for all the system features.

23. Good practice requires that the new and old systems should be run parallel until a reasonable period has passed without serious problems being encountered, or alternatively, that sufficient testing be performed and the processing results reviewed to ensure proper functioning of the new system before its full implementation.

24. UNPA indicated that the new system had been in operation for months at UNPA offices in Vienna and Geneva and that the problems which occurred when the new system was implemented in New York had not been anticipated.

25. During 1996, UNPA was in the process of testing the new system to make the necessary modifications and improve the system's documentation.

5. Users' needs not fully met

26. While the system apparently met the requirements of the European offices, it did not fully meet those of the New York office, thus causing difficulties to UNPA after its implementation. The New York office was unable to process

sales transactions for one and a half months prior to the 1995 year-end date. However, UNPA stated its belief in the reliability of the accounting information generated by the new system.

27. Our review of the system features and its various functions further indicated that reports, needed by management as monitoring tools, were not yet generated by the system. In our view, the new system needs to be modified and additional funds are necessary to fully meet the requirements of UNPA's New York office.

28. Only when the new system is able to perform its intended functions and fully meet UNPA's objectives can the considerable resources already spent be justified.

The Office recommends that:

- UNPA should ensure, in the future, proper planning of significant projects, including a feasibility study and a cost-benefit analysis; a formal statement of user requirements should be established and users should be involved in all critical stages of the project development (recommendation AH97/293/1/003);
- UNPA should ensure that all users are adequately trained on relevant functions of the new system; documentation of the system should be further improved; and enhancement should be carried out continuously in order to fully meet UNPA's business needs; in future projects, UNPA should ensure adequate testing prior to implementation (recommendation AH97/293/1/004).

C. Timeliness of financial reporting

29. In 1994, UNPA had regularly submitted monthly financial statements to the United Nations Accounts Division. In 1995, only quarterly statements were submitted two to three months after the end of each quarter. UNPA's quarterly financial statements for the period ending 31 October 1995 were submitted only in February 1996.

30. Without the timely submission of periodic financial statements, senior management of the United Nations is not in a position to monitor UNPA's operations properly and closely. However, UNPA's management indicated that, effective April 1996, monthly financial statements were produced on a timely basis.

The Office recommends that:

- UNPA should always ensure timely submission of its monthly financial statements to the United Nations Accounts Division (recommendation AH97/293/1/005).

D. Attendance at stamp shows

31. According to the UNPA Manual, a yearly programme of stamp shows is to be set up in advance to ensure that attendance by staff is properly justified. The Manual also requires an analysis of sales from past attendance and, in case of new shows, an assessment as to whether attendance would generate income.

32. There is a need for improvement in the planning for UNPA's staff attendance at stamp shows. Budgets were not prepared for new shows to reflect the strategic marketing objectives and the anticipated net revenue to be generated.

33. UNPA's gross revenue from stamp shows during the three-year period from 1992 to 1994 averaged $363,000 per year. During the same period, attendance at stamp shows resulted in average travel costs of $92,000 per year. While during the biennium 1992-1993 travel costs amounted to 23 per cent of gross revenue of stamp shows, in 1994 travel costs absorbed more than 30 per cent. We did not include in this calculation the salary cost of staff members who attended these shows.

34. The number and type of experience of UNPA's staff attending these shows should be carefully assessed in relation to the expected strategic marketing objectives of attending such shows.

The Office recommends that:

- UNPA should carefully assess the costs of staff attending stamp shows and balance them against its strategic marketing objectives (recommendation AH97/293/1/006).

E. Customer accounts and sales

35. Customer accounts represent money owed to UNPA by its customers and dealers resulting from the sale of stamps. Monitoring these accounts and their speedy collection is essential for the liquidity and profitability of the business.

1. Monitoring customer accounts

36. At the time of audit, UNPA's New York office had several accounts receivable from overseas direct sales and consignment agencies.

37. UNPA systems did not produce reports which would have been useful in monitoring the status of its outstanding accounts receivable, such as those covering days' sales outstanding, ageing reports of outstanding balances, listing of accounts in dispute or provision for doubtful accounts. In the absence of such reports, management might not be fully aware of the status of these accounts. Long-outstanding accounts receivable should be closely monitored to expedite their collection and to determine the amount of a provision for doubtful accounts or, where appropriate, the amounts to be written off. We could not find evidence that all old outstanding accounts had been examined or followed up.

38. We found that several accounts receivable were more than two years old with no provision for allowance for doubtful accounts or write-off, a practice which is contrary to the United Nations rules. The last write-off of uncollectible accounts was done in 1990. Inadequate valuation of accounts receivable affects the reliability of UNPA's financial statements.

39. Management stated that collection of long-outstanding accounts receivable was being monitored and examined and that the preparation and documentation of the write-off of old delinquent accounts had been ongoing, but did not provide details of how this was accomplished.

The Office recommends that:

- UNPA should use its new computer system to produce the reports and lists required to ensure that old outstanding accounts receivable are regularly analysed and followed up, and appropriate provision for doubtful accounts or write-off should be submitted to the Controller (recommendation AH97/293/1/007).

2. Inadequate sales reports

40. Sales generated from customer subscriptions constitute a major source of the revenue of the New York office. Therefore, ongoing analysis of this type of revenue is one of the tools that should be made available for management to evaluate the effectiveness of its marketing strategies and promotion programmes.

41. We noted delays in the preparation of sales reports showing the sales orders received and total accumulated sales for each month. The November 1995 report was only prepared in January 1996 and was incomplete. At the time of our audit, sales reports for the month of December 1995 had not been produced.

The Office recommends that:

- UNPA's systems should periodically produce adequate sales reports. Such reports should show by customer type and market location the monthly and year-to-date actual and forecasted sales, as well as a comparison with the preceding year. These reports would allow management to verify whether actual sales meet business expectations (recommendation AH97/293/1/008).

F. Stamp inventory control

1. Access to stockroom

42. The Operational Stockroom of UNPA is currently occupied by four custodial staff. During office hours, the order-filling staff had access to the Operational Stockroom and were obtaining stamps directly from the open shelves. There was no routine to document their requests prior to stamp issuance; therefore, accountability could not be formally established.

43. Management stated that the order-filling staff entered the Operational Stockroom mainly to exchange damaged stamps.

44. In our view, stamps are readily convertible to cash; therefore, an adequate system for their safe keeping is essential to avoid the risk of loss.

45. Access to the Operational Stockroom should be restricted to custodial staff. Order-filling clerks should not be allowed to exchange damaged stamps by themselves. Such routine should be properly formalized through a formal request to the custodial staff.

The Office recommends that:

- UNPA should ensure that access to the Operational Stockroom is limited to custodial staff (recommendation AH97/293/1/009).

2. Inventory valuation

46. The value of stamps which are no longer available for sale does not represent an asset to the business and should therefore be removed from the inventory account. It is UNPA's practice, however, to keep all stock items in the inventory account even though some of them are no longer available for sale. For example, commemorative stamps which had already been cancelled and withdrawn from sale were still part of the inventory accounts, thereby, affecting the accuracy of such accounts.

47. Our review showed that there was no separate report produced by UNPA listing slow-moving inventory items and those already removed from sale.

48. In addition, we noted that inventory movements were not immediately recorded in the stock-books. Timeliness of recording of all stock movements in the stock-books would strengthen controls over inventory and ensure the reliability of the accounting records.

The Office recommends that:

- UNPA should identify the value of all stamps included in the inventory accounts which are no longer available for sale and reduce the inventory account accordingly (recommendation AH97/293/1/010).

(Signed) Karl Th. **Paschke**
Under-Secretary-General
for Internal Oversight Services